Overview of CU Homeowners Affordability Relief Program (CU HARP) and

CU System Investment Program (CU SIP)

Subject: Central Liquidity Facility Programs

Introductory Remarks:

- First, I want to thank Chairman Fryzel and the NCUA Board for their support and leadership in seeking ways to address the liquidity needs of the credit union system.

- I also want to thank the trade associations here today for participating in this outreach effort to inform credit unions about the new CLF programs.

- Before I discuss the programs, I must mention a few housekeeping items. For those of you listening in, you will need to turn off your pop up blocker. You will want to use the box at the bottom of the window to submit a question. Lastly, this webcast will be available for archive for on-demand listening and you will be notified via email when it is available.

- Now, let me talk to you about our subject for the day.

- CLF has been busy since August of this year. It was in mid-August when we began efforts to increase the amount of our borrowing authority from Congress. We observed the increasing liquidity pressures in the financial marketplace and initiated a request to increase the CLF borrowing authority to be prepared to relieve liquidity pressures. The “tightening” of conditions in the credit markets directly impacted the abilities of financial institutions to raise funds from their traditional primary sources. Secured borrowing in particular has been hindered by declining market values on securities and increasingly higher collateral requirements. As further preparation to meet credit union liquidity needs, the corporate credit union network, which acts as agent for the CLF, approached CLF to discuss ways for CLF to provide back-up liquidity relief. This back-up role is of course consistent with our purpose and mission.

- The growing liquidity pressures warranted CLF's pursuit of a total lift of the Congressional appropriations limit on our borrowing authority. Congress lifted the appropriations limit of $1.5 Billion, and now permits CLF to borrow up to the statutory limit, currently approximately $41 Billion. Since CLF borrows exclusively from Treasury's Federal Financing Bank, this means that credit unions have access to a $41 billion external funding source.

- Working with the corporate credit unions, we have provided liquidity to the system by converting loans granted by corporate credit unions to CLF-funded loans.

- To date, we have loaned approximately 1.8 billion in "liquidity needs" loans.

- The statute is restrictive with respect to liquidity needs standards; we have not funded some requests, mostly due to a lack of "liquidity needs" as that term is defined in the Federal Credit Union Act. In particular, CLF cannot make an advance if the intent of the advance is to expand the credit union's portfolio. This means CLF cannot convert a corporate's loan in cases where the credit union borrowed for the sake of funding new loans.

- This statutory provision prompted us to consider how under our authority CLF could inject liquidity for reasons other than the defined liquidity needs in our statute and at the same time not contravene the statutory restriction against expanding portfolios.

- The credit crunch and its effect upon securities markets have persisted. The decline in the housing market is a key driving factor and is forecasted by most economists to persist well into 2009 and perhaps beyond. Given the uncertainty in forecasts, illiquidity in the market for mortgage backed securities likely will persist.

- There is a provision in the CLF Rules and Regulations, in Section 725.23, that allows for making advances for reasons other than “liquidity needs” provided that such advances are in the national economic interest and with the concurrence of the Secretary of the Treasury and the Board of Governors of the Federal Reserve System. In response *to* the unprecedented systemic liquidity pressures, the NCUA Board determined that making loans for other than liquidity needs *is* in the national economic interest and asked the Secretary of the Treasury and the Board of Governors of the Federal Reserve System to concur, which they have done. The determination that such loans are in the national economic interest is a function of the credit crunch and the prevailing economic difficulties and the authority is therefore limited in time.

- It is under this authority that the two new CLF program initiatives were developed.

We will now discuss the details of these programs: first, the Credit Union Homeowners Affordability Relief Program, which we call the CU HARP; and second, the Credit Union System Investment Program, which we call CU SIP. Let me provide an overview of general features that each of these programs has in common.

- Both programs are designed to achieve an external infusion of liquidity into the credit union system, specifically into the corporates.

- Each requires participating corporates to use the funds to pay down external secured borrowings

- Each program will serve to free up pledged collateral and this should increase contingency funding capacity for corporates to address future needs.

Let's talk about each program in turn…

CU HARP

1. Two-year, $2 Billion program

2. The intent of the program is to assist homeowners who are facing delinquency, default or foreclosure on their mortgages

3. Under the program

    a. CLF makes a one year advance to the CU; which is renewable for a term of one year

    b. CU must in turn invest proceeds in 2-Yr guaranteed CU HARP Note issued by a participating corporate

    c. CLF advance will be made at a rate equal to the higher of the Federal Reserve discount window rate for Primary Credit or the rate on a comparable maturity Treasury + 1/8%

    d. The HARP Note rate is a complex variable rate with 2 components: the first is a rate equal to the CLF advance rate. The second component is a bonus coupon up to 1%, indexed to the CU's documented rate reduction to its members on distressed mortgages.

e. The CLF advance may only be used to invest in a HARP Note.

f. It is not necessary that the CU be a member of the corporate issuing the HARP Note. Rather, CLF will designate which corporate will issue HARP Notes to which CUs.

g. Each HARP Note is fully guaranteed by the NCUSIF pursuant to the “Temporary Corporate Credit Union Liquidity Guarantee Program” instituted by the NCUA Board in October.

h. Each CLF advance must be collateralized by 200%. Half of the collateral will consist of the HARP Note and half will come from other assets of the CU.

i. Participants must have a net worth ratio of at least 6%.

j. The cost of the transactions to the participating corporate will be the CLF Advance Rate plus up to 175 basis points. The cost is comprised of the initial rate paid on the HARP Note + a 75 basis point fee to the NCUSIF for its guarantee + up to an additional 1% in bonus coupon.

k. The corporate must use the proceeds of the HARP Note to reduce its secured indebtedness to third parties (that is external borrowers).

l. In implementing CU HARP, both NCUA and CLF require assistance from the relevant state regulator in verifying that state-chartered credit unions comply with the terms and conditions of the program.

m. Participating CUs will agree to the following:

- To modify loan rates on primary-residence home mortgages that: are 60 days or more past due, or less than 60 days where the credit union documents the member's hardship; and have an LTV ratio greater than 80%

- The maximum income for each borrower may not exceed 150% of median household income for the zip code or state whichever is greater
- The CU will verify proof of current income
- The borrower will agree not to draw on or take out a second mortgage during the 2 years
- The borrower's PTI ratio would be between 31% and 38% and the loan rates would have a floor of 3%
- At the CU's discretion, the maturity of the modified loan can be extended to 40 years
- In order to qualify for the full amount of the bonus coupon of 1%, the CU must provide an aggregate

realized rate reduction for homeowners equivalent to 200 basis points on the HARP Note.

- CLF has delegated certain functions under CU HARP to U.S. Central FCU in its capacity as the CLF Agent Group Representative for the corporates that are Agents of the CLF.

- Under CU HARP, CLF will offer to make advances to one or more CUs, and one or more participating corporates will offer to sell CU HARP Notes to those CUs in accordance with the following schedule:

Step	Day (by 2:00 pm, CST)	Action	Party
1	Friday, December 12, 2008	Corporate must provide AGR (U.S. Central) with notice and requested amount	Corporate
2	Friday, December 19, 2008	Credit union must provide corporate with completed subscription	Credit union
3	Monday, December 29, 2008	Awards of CLF Advances and HARP Note issuances announced	CLF
4	Friday, January 2, 2009	Closing and funding of CLF Advance and HARP Note purchase and sale	CLF, AGR, Corporate, Credit

			union

- The maximum CU HARP offering amount is $2 Billion and the offering will not be increase if it is oversubscribed.

- The award allocation process is published on NCUA's website and you can view this by clicking on the CLF link on the NCUA homepage: www.ncua.gov

  a. Each CU that wishes to participate in CU HARP must participate at a level of at least $1 Million

  b. Application must be the form provided by the corporate and available on the CLF web page

  c. The award amount will be pro rata based on the allocation formula specified in the Allocation Process document.

CU SIP

- Monthly offerings of One-year term advances; initial $500 Million offering
- Additional offerings will be made on a monthly basis and CLF will determine size of each monthly SIP offering amount
- The intent of the program is to add a source of stable and affordable liquidity into the corporate credit union system
- Under the program:
    a. CLF makes a one-year advance to the CU
    b. CU must in turn invest proceeds in a 1-Yr guaranteed CU SIP Note issued by a participating corporate.
    c. The Note will match the term of the CLF advance.
    d. CLF advance will be made at a rate equal to the higher of the Federal Reserve discount window rate for Primary Credit or the rate on a comparable maturity Treasury + 1/8%

e. The SIP Note rate will bear the CLF advance rate plus .25%.

f. The CLF advance proceeds may only be used to invest in a SIP Note.

g. It is not necessary that the CU be a member of the corporate issuing the SIP Note. Rather, CLF will designate which corporate will issue SIP Notes to which CUs.

h. Each SIP Note is fully guaranteed by the NCUSIF pursuant to the “Temporary Corporate Credit Union Liquidity Guarantee Program” instituted by the NCUA Board in October.

i. Each CLF advance must be collateralized by 200%. Half of the collateral will consist of the SIP Note and half will come from other assets of the CU.

j. Participants must have a net worth ratio of at least 6%.

k. The cost of the transactions to the participating corporate will be the CLF Advance Rate plus 100 basis points. The cost is comprised of the CLF Advance Rate + a spread of .25% + a 75 basis point fee to the NCUSIF for its guarantee.

l. The corporate must use the proceeds of the SIP Note to reduce its secured indebtedness to third parties (that is external borrowers).

- The CLF has delegated certain functions under the program to U.S. Central Federal Credit Union (U.S. Central), in its capacity as agent group representative (AGR) for the corporates that are agents for the CLF. With respect to each Monthly Funding, the CLF will offer to make CLF Advances to one or more credit unions, and one or more participating corporates will offer to sell associated SIP Notes to those credit unions, in accordance with the following schedule:

Step	**Day** **(by 2:00 pm, CST)**	**Action**	**Party**
1	Second to last Friday of each month	Corporate must provide AGR (U.S. Central) with notice and requested amount	Corporate
2	Last Friday of each month	Credit union must provide corporate with completed subscription	Credit union
3	First Friday of each month	Awards of CLF Advances and SIP Note issuances announced	CLF
4	Second Friday of each month	Closing and funding of CLF Advance and SIP Note purchase and sale	CLF, AGR, Corporate, Credit union

- For the initial SIP offering, the following schedule applies:

- Participating credit unions must complete step 2 not later than 2:00 pm, CST, Friday, December 26, 2008. The CLF will complete step 3 by Monday, January 5, 2009, and step 4 will be completed on Friday, January 9, 2009.

- The CU SIP will terminate on June 30, 2009, with the Closing of the last Monthly Funding occurring on Friday, June 12, 2009, unless the NCUA Board extends the TCCULGP and the CU SIP through December 31, 2009.

That concludes the overview of the CLF programs. As I mentioned at the outset:

- Both programs are designed to achieve an external infusion of liquidity into the credit union system, specifically into the corporates.

- Each requires participating corporates to use the funds to pay down external secured borrowings

- Each program will serve to free up pledged collateral and this should increase contingency funding capacity for corporates to address future needs.

- Of course, CU HARP has the added benefit of providing assistance to troubled homeowners.

At this point, we're ready to answer questions that our listeners have submitted about these programs.